

CANADA GOLD CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009**



Auditors' Report

To the Shareholders of
Canada Gold Corporation:

We have audited the accompanying consolidated financial statements of Canada Gold Corporation, which comprise the consolidated balance sheet as at December 31, 2010 and 2009, and the consolidated statement of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Gold Corporation as at December 31, 2010 and 2009, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

We draw attention to Note 1 to these consolidated financial statements which describe the uncertainty related to Canada Gold Corporation and its subsidiaries' ability to operate as a going concern in the future. Our opinion is not qualified in respect of this matter.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

April 13, 2011

Canada Gold Corporation
Consolidated Balance Sheets
As at December 31, 2010 and 2009

	2010	2009
ASSETS		
Current		
Cash	\$ 291,332	\$ 784,759
Marketable securities (Note 5)	750,212	2,782,290
Amounts receivable	22,613	33,309
Current portion of long-term receivable (Note 7a)	149,105	510,218
Prepaid expenses	52,124	105,913
	<u>1,265,386</u>	<u>4,216,489</u>
Long-term receivable (Note 7a)	-	235,634
Advance to related party (Note 12)	15,306	85,282
Construction in progress (Note 6)	-	39,191
	<u>\$ 1,280,692</u>	<u>\$ 4,576,596</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 50,939	\$ 178,709
Short term loan (Note 4)	-	209,320
	<u>50,939</u>	<u>388,029</u>
EQUITY		
Share capital (Note 8)	13,183,290	13,621,890
Contributed surplus (Note 9)	1,777,887	1,701,196
Accumulated other comprehensive income (loss) (Note 10)	(171,591)	405,264
Deficit	(13,559,833)	(11,912,155)
Shareholders' equity	<u>1,229,753</u>	<u>3,816,195</u>
Non-controlling interests	-	372,372
	<u>\$ 1,280,692</u>	<u>\$ 4,576,596</u>

NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS (Note 1)

COMMITMENTS AND CONTINGENT LIABILITY (Note 15 and 16)

SUBSEQUENT EVENTS (Note 18)

Approved on Behalf of the Board:

"David McMillan"

David McMillan, Director

"Harold Forzley"

Harold Forzley, Director

Canada Gold Corporation
Consolidated Statements of Operations and Deficit
For the years ended December 31, 2010 and 2009

	2010	2009
Expenses		
Accounting and audit fees	\$ 104,457	\$ 87,693
Assays	-	14,385
Consulting fees	136,834	113,546
Interest and bank charges	5,118	2,105
Investor relations	93,657	49,178
Legal	48,829	66,668
Management fees (Note 12)	170,796	185,011
Office, rent and administrative	165,478	149,684
Salaries	35,247	117,439
Stock based compensation cost (Note 11(b))	76,691	201,743
Transfer agent, listing and filing fees	16,275	31,450
Travel and promotion	93,397	77,375
Loss before other items	946,779	1,096,277
Other Items		
Interest income	39,193	95,187
Loss on foreign exchange	(48,102)	(110,661)
Gain (loss) on disposition of marketable securities	(58,592)	50,656
Write-off of construction in progress and related costs	(161,285)	-
Loss on amounts receivable	(267,681)	(126,790)
Amendment fee (Note 7a)	-	94,148
Resource property costs written-off (Note 7)	-	(388,409)
Net loss for the year	(1,443,246)	(1,482,146)
Net loss attributed to:		
Shareholders of Canada Gold Corporation	(1,262,023)	(1,350,776)
Non-controlling interest	(181,223)	(131,370)
	(1,443,246)	(1,482,146)
Deficit attributable to shareholders of the company		
Deficit – beginning of year	(11,912,155)	(10,561,379)
Net loss	(1,262,023)	(1,350,776)
Change in ownership interest in CanOrePro (Note 4)	(385,655)	-
Deficit - end of year	\$ (13,559,833)	\$ (11,912,155)
Weighted average number of shares outstanding	13,014,118	9,099,916
Net loss per share - basic and diluted	\$ (0.10)	\$ (0.15)

- See accompanying notes to the consolidated financial statements -

Canada Gold Corporation
Consolidated Statement of Comprehensive Loss
For the years ended December 31, 2010 and 2009

	2010	2009
Net loss for the year	\$ (1,443,246)	\$ (1,482,146)
Unrealized gain (loss) on available-for-sale investments	(576,855)	628,726
Comprehensive loss for the year	(2,020,101)	(853,420)
Attributable to:		
Shareholders of Canada Gold Corporation	(1,838,878)	(722,050)
Non-controlling interests	(181,223)	(131,370)
	\$ (2,020,101)	\$ (853,420)

- See accompanying notes to the consolidated financial statements -

Canada Gold Corporation
Consolidated Statements of Cash Flows
For the years ended December 31, 2010 and 2009

	2010	2009
Cash resources provided by (used in)		
Operating activities		
Net loss for the year	\$ (1,443,246)	\$ (1,482,146)
Items not affected by cash		
Stock-based compensation	76,691	201,743
Loss (gain) on disposition of marketable securities	58,592	(50,655)
Interest income on loans and receivables	(39,098)	(95,081)
Unrealized foreign exchange loss	15,541	105,559
Write-off of construction in progress and related costs	161,285	-
Resource property costs written-off	-	388,409
Loss on amounts receivable	267,681	126,790
Amendment fee	-	(94,148)
Changes in non-cash working capital balances:		
Amounts receivable	(30,533)	(25,154)
Prepaid expenses	53,789	(57,858)
Accounts payable and accrued liabilities	(127,770)	128,294
	<u>(1,007,068)</u>	<u>(854,247)</u>
Investing activities		
Resource property costs, net	-	1,591
Cash paid for asset acquisition	-	(62,260)
Cash paid for construction in progress	(80,865)	(39,191)
Cash from disposition of marketable securities	636,145	435,672
	<u>555,280</u>	<u>335,812</u>
Financing activities		
Advance prior to asset acquisition	-	(100,000)
Proceeds received from loans payable	-	107,695
Shares issued for cash	-	1,155,000
Share issuance cost	-	(97,788)
Advanced to related parties	(41,639)	(45,947)
	<u>(41,639)</u>	<u>1,018,960</u>
Net increase (decrease) in cash	(493,427)	500,525
Cash - beginning of year	<u>784,759</u>	<u>284,234</u>
Cash - end of year	\$ 291,332	\$ 784,759
Non-cash investing and financing activities		
Business acquired by issuance of shares	\$ -	\$ 438,600
Amendment fees in shares	\$ -	\$ 94,148
Supplemental cash flow information		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

- See accompanying notes to the consolidated financial statements -

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

The Company is engaged in the business of resource development by establishing modern mineral processing facilities that will service active small scale gold mining regions in developing countries. On August 17, 2009 the Company changed its name from MetalQuest Minerals Inc. to Canada Gold Corporation.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. As at December 31, 2010, the Company has incurred significant losses since inception (November 8, 1984) totalling \$13,559,833. On April 13, 2010, the Company announced it had reduced activities in Peru due to changing dynamics in the northern region where it initially intended to build an ore processing facility. The Company has subsequently ended existing social and environmental studies and other ongoing expenses in Peru to conserve cash. On August 27, 2010, the Company announced the unwinding of the August 17, 2009 Option Agreement with Grafton Resources Investment Ltd. ("Grafton") on the equity ownership of Canadian Ore Processors Corp. ("CanOrePro") whereby the Company returned 231,623 Grafton units to Grafton in exchange for 100 Class B shares of CanOrePro held by Grafton. In addition, Grafton also forgave an outstanding US \$200,000 short term non-interest bearing loan owed by CanOrePro. The 100 Class B common shares representing the other 50% outstanding common shares of CanOrePro were cancelled and as at September 30, 2010 the Company owns 100% equity interest of CanOrePro (Note 4).

Management plans to continue to investigate other mineral exploration and processing opportunities. The Company's ability to continue as a going concern is dependent on the Company being able to obtain the necessary financing to meet administrative overhead and acquire other feasible projects.

2. NEW ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Adopted in fiscal 2010

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company has chosen to early adopt Sections 1582, 1601 and 1602 effective January 1, 2010. As a result, non-controlling interests have been presented within shareholders' equity on the balance sheet. The non-controlling interests in loss are no longer added in arriving at consolidated net loss. Consolidated other comprehensive loss and consolidated comprehensive loss have been attributed to equity shareholders of the Company and non-controlling interests. In addition, the increase in ownership interest in CanOrePro is recorded as an equity transaction and no gain or loss was recognized as the Company maintained control of the subsidiary. The provisions of Section 1602 have been applied retrospectively.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

2. NEW ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS - *Continued*

Recent accounting pronouncements

In February 2008, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company, and its wholly-owned subsidiaries.

The 2010 consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

- Red Tusk Resources Inc. ("Red Tusk")- dissolved on June 25, 2009
- Canadian Ore Processors Corp. ("CanOrePro")- acquired on August 17, 2009 (Note 4)
- Canada Gold Colombia S.A.S - incorporated on March 26, 2010

All material intercompany balances and transactions have been eliminated on consolidation.

b) Marketable securities

The Company has classified its marketable securities as available-for-sale and therefore carries them at fair market value with the unrealized gain or loss recorded in accumulated other comprehensive income. Fair values were determined by reference to published price quotations in an active market as at December 31, 2010. For financial instruments classified as available for sale for which a quoted market price in an active market is unavailable, such instruments will be measured at cost.

c) Resource properties

All costs related to the acquisition, exploration and development of resource properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized to income using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of resource properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its resource properties contains economically recoverable reserves. Amounts capitalized as resource properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on resource properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES - *Continued*

d) Long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying value of the asset exceeds the fair value of the asset.

e) Asset retirement obligations

The Company follows CICA Handbook Section 3110, "Asset Retirement Obligations", which establishes standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2010, the Company has not incurred any asset retirement obligation related to the exploration and development of its resource properties.

f) Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, future income taxes are recognized to reflect the expected future tax consequences arising from temporary differences between the carrying value and the tax bases of the Company's assets and liabilities. The amount of future income tax assets is not recognized until realization is more likely than not.

g) Financial instruments

The Company's financial instruments consist of cash, marketable securities, long-term receivable, advances to related party, and accounts payable.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840 "Related Party Transactions".

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. Financial assets classified as available-for-sale for which a quoted market price in an active market is unavailable, such instruments will be measured at cost.

The Company classified cash as held-for-trading, marketable securities as available-for-sale, advances to related parties, and long-term receivable as loans and receivables, accounts payable as other financial liabilities.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES - *Continued*

h) Stock-based compensation

The Company follows the recommendation of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under this method, compensation expense for stock option grants to employees and non-employees is based on the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option Pricing Model. Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period. Consideration paid by employees and non-employees together with the related contributed surplus on the exercise of stock options is recorded as share capital.

i) Foreign currency translation

Transactions and balances in currencies other than the Canadian dollar are translated using the temporal method. Accordingly revenue, expenses and non-monetary balances are translated at the rate of exchange prevailing at the transaction dates, and monetary balances are translated at the rate prevailing at the balance sheet date with resulting exchange gains and losses being included in the determination of income.

j) Non-monetary transactions

Transactions in which shares or other non-cash consideration are exchanged for assets or services are measured at the fair value of the assets or services involved in accordance with CICA Handbook Section 3830 "Non-monetary Transactions".

k) Earning (loss) per share

The Company uses the treasury stock method in computing earning (loss) per share. Under this method, basic earning (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. For the periods ended December 31, 2010 and 2009, the existence of warrants and options causes the calculation of fully diluted earning (loss) per share to be anti-dilutive. Accordingly, fully diluted earning (loss) per share information has not been shown.

l) Construction-in-progress

Construction-in-progress is stated at cost, which comprises all direct and indirect costs of procuring assembling and testing the asset. Upon completion, construction-in-progress is transferred to property, plant and equipment and is amortized upon being put into productive use.

m) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant areas requiring the use of management estimates are the determination of impairment of resource properties and construction in progress, stock-based compensation, fair value of marketable securities and derivative liability, and estimation of future income tax assets and liabilities. Actual results may differ from those estimates.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

4. ACQUISITION

On August 17, 2009 the Company acquired all of the issued and outstanding Class A common shares of Canadian Ore Processors Corp. ("CanOrePro") in exchange for 1,190,001 common shares of the Company. The shares had a fair value of \$404,600. The Company also paid \$67,000 in finders fees which consisted of \$33,000 in cash and \$34,000 in common shares by issuing 100,000 common shares with a fair value of \$0.34 per share. In addition, the Company paid filing and legal fees in the amount of \$32,142. Total cost of CanOrePro acquisition was \$503,742.

CanOrePro holds 100% of the equity of Procesador Canorepro S.A. a private Peruvian based company that is in the process of developing and constructing a mineral based ore processing facility in Peru.

Prior to the acquisition of CanOrePro, Grafton Resources Investment Ltd. ("Grafton"), a Cayman Island based closed end resource fund managed in London, England which has its shares listed for trading on the Irish Stock Exchange, owned 88% of the common shares outstanding of CanOrePro. Grafton acquired its ownership interest of CanOrePro by issuing 231,623 Grafton units to CanOrePro. The common shares issued to Grafton were later consolidated to 100 non-voting Class B common shares. The Class B common shares have the same rights and restrictions as the Class A common shares with the exception that they are non-voting.

As Class A and B common shares share equally in the equity of CanOrePro and as a result of the above noted transactions, the Company and Grafton each have a 50% equity interest in CanOrePro.

Per the Agreement, the Company has the option to purchase all of Grafton's Class B common shares of CanOrePro (the "Option"). The Option is exercisable for a period of 36 months with an option price of US\$10,000,000 and shall be payable in cash or shares at the discretion of the Company. If the Company elects to pay the Option price in shares, the deemed value will be based on the 30 day average trading price on the Exchange prior to the issue date of such shares. If the 30 day average trading price is lower than US\$0.55 per share, the deemed price of the consideration shall be US\$0.55 per share.

The acquisition of CanOrePro was treated as an acquisition of assets rather than a business combination because the acquisition does not meet the definition as outlined in the Canadian Institute of Chartered Accountant Handbook Emerging Issues Committee Abstract 124, "Definition of a Business". The operations of CanOrePro have been included in these consolidated financial statements from the date of acquisition.

The following is a summary of the purchase price allocation at the date of acquisition based upon the estimated fair values of the assets acquired and liabilities assumed:

Consideration Given:		
Common shares issued- 1,190,001 common shares	\$	404,600
Finders fees- 100,000 common shares and cash		67,000
Filing and legal fees		32,142
	\$	503,742
Net asset acquired at fair value		
Cash	\$	2,882
Grafton units		1,225,784
Current liabilities (Note 4(i))		(221,181)
Net asset at fair value		1,007,485
Non controlling interest		(503,743)
	\$	503,742

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

4. ACQUISITION - Continued

- (i) CanOrePro entered into a short term non-interest bearing loan agreement with Grafton whereby Grafton advanced CanOrePro US \$200,000. The principal of the loan will be repaid from proceeds from the future disposition of Grafton units.

On August 27, 2010, the Company cancelled the Option Agreement with Grafton and returned 231,623 Grafton units to Grafton due to its illiquidity in exchange for 100 non-voting Class B common shares of CanOrePro. The 100 Class B common shares representing the other 50% outstanding common shares of CanOrePro were cancelled. Accordingly, the Company's ownership interest in CanOrePro increased to 100%. This transaction was recorded as an equity transaction as an adjustment to share capital of \$438,600, the original value of common shares issued, and the remaining amount of \$385,655 was charged to deficit. In addition, Grafton also cancelled an outstanding US \$200,000 short term non-interest bearing loan owed by CanOrePro.

5. MARKETABLE SECURITIES

Marketable securities include of 1,903,259 common shares of Animas Resources Inc. ("Animas"), a company listed on the TSX-V in Canada, with a fair value of \$570,978. All shares have been released from escrow. (Note 7(a))

Marketable securities also include 125,000 common shares of GMV Minerals Inc. ("GMV"), a company listed on the TSX-V in Canada, which have a fair value of \$82,500. The GMV shares were received under the RHG property option agreement as disclosed in Note 7(b).

During the year, the Company received 744,101 common shares of Canada Rare Earths Inc. to settle \$111,615 in amounts receivable. Canada Rare Earths Inc.'s shares are listed on the TSX-V and had a fair value of \$96,734 at December 31, 2010.

On August 27, 2010, the Company returned 231,623 Grafton units held by CanOrePro as a result of the transaction described in Note 4. The units had a value of \$1,225,784.

6. CONSTRUCTION IN PROGRESS

During the year ended December 31, 2010, the Company ended all development activities in Peru, including constructing an ore processing plant and wrote-off all the costs associated with the processing facility of \$120,056.

7. RESOURCE PROPERTY COSTS

Summary of cumulative expenditures are as follows:

	December 31, 2009				
	Acquisition	Annual Mining Concession Fees	Exploration	Write-off	Total
Resource Property					
RHG Property	\$ 1,149,707	-	(63,352)	(1,086,355)	\$ -
	\$ 1,149,707	-	(63,352)	(1,086,355)	\$ -

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

7. RESOURCE PROPERTY COSTS - Continued

Summary of current year expenditures:

	2010	2009
Canada		
RHG Property		
BC mining tax credit	\$ -	\$ (1,591)
Option payment	-	(10,000)
Total costs (recoveries) for the period	-	(11,591)
Mineral property written-off	-	(388,409)
Net change for the year	-	(400,000)
Balance - Beginning of Year	-	400,000
Balance – End of Year	\$ -	\$ -

a) **Santa Gertrudis and Roca Roja**

On April 15, 2007 the Company entered into an agreement to sell 100% of its shares, rights, title and interest of First Silver Reserves, S.A. de C.V. and Recursos Escondidos, S.A. de C.V. (“the Subsidiaries”) to Animas Resources Inc. (“Animas”). The Subsidiaries are registered and beneficial holders of the Santa Gertrudis and Roca Roja properties located in Sonora, Mexico.

In consideration for the sale the Company received \$726,386 in cash and 1,500,000 common shares of Animas, which are subject to an escrow agreement. The shares will be released from escrow in share allotments of 225,000 in 6 month intervals until July 2010. As at December 31, 2010, all shares were released from escrow (2009 – 450,000 shares were held in escrow). The following are details pertaining to the escrow release:

Release dates	Shares to be released	Shares received	Escrow balance
July 13, 2007	150,000	150,000	-
January 13, 2008	225,000	225,000	-
July 13, 2008	225,000	225,000	-
January 13, 2009	225,000	225,000	-
July 13, 2009	225,000	225,000	-
January 13, 2010	225,000	225,000	-
July 13, 2010	225,000	225,000	-
Total	1,500,000	1,500,000	-

In addition, Animas is required to pay US \$1,500,000 in three equal payments of US\$500,000. The payments can be made in cash and/or common shares of Animas, at the option of Animas, on the anniversary of the closing date, which is July 10. As a result of the sale, the Company reduced the carrying values of the Santa Gertrudis and Roca Roja resources properties to \$Nil and recorded a loss on disposition of \$415,617 in the year ended December 31, 2007.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

7. RESOURCE PROPERTY COSTS - Continued

a) **Santa Gertrudis and Roca Roja - Continued**

In 2009, the Company entered into an amending agreement with Animas whereby the Company agreed to extend the due dates and deemed price per share of the remaining instalment payments. The minimum and maximum deemed price per share shall not be lower than \$0.50 or higher than \$1.00, if Animas elects to pay the Company with common shares. As consideration for the amendment, Animas issued the Company an additional 254,454 common shares with a total value of \$94,148.

The changes in due dates on the remaining instalment payments include:

- a) Extending the \$250,000 originally due on July 10, 2009 to January 31, 2010 (received);
- b) Reducing the \$500,000 due in July 10, 2010 to \$250,000 (received); and
- c) Extending the remaining \$250,000 due in July 10, 2010 to January 31, 2011 (subsequently received).

During the year, Animas elected to pay the January 31, 2010 US\$250,000 instalment by issuing 408,697 common shares with a fair value of \$216,609 and the July 10, 2010 US\$250,000 instalment by issuing 514,150 common shares with a fair value of \$159,387. A loss on settlement of amounts receivable of \$145,954 was recorded during the year.

As at December 31, 2010, a loss on amounts receivable of \$99,404 (2009 - \$nil) has been recorded relating to the minimum deemed price as the fair value of the Animas shares as at December 31, 2010 was below the deemed price of \$0.50.

The following are details pertaining to the remaining receivable:

Payment dates	Balance US\$	Balance CAD\$
January 31, 2011	250,000	248,509
Total	250,000	248,509

The Company accounted for the long term receivable from Animas at amortized cost using the effective interest rate method. For the year ended December 31, 2010, the Company recorded \$39,098 (2009- \$95,081) non cash interest on long term receivables.

Subsequent to year-end, Animas elected to pay the January 31, 2011 US\$250,000 installment by issuing 499,251 common shares with a fair value of \$139,790.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

7. RESOURCE PROPERTY COSTS - *Continued*

b) **RHG Property**

On December 15, 2005, Red Tusk entered into an option agreement to acquire a 100% undivided legal and beneficial interest in 16 mineral claims located in the Liard Mining Division, British Columbia, Canada (the "RHG Property") in consideration for \$100,000 in cash (paid), the issuance of 1,000,000 common shares (issued) and reimbursement of exploration costs of \$405,775. The interest in the RHG Property is subject to a 2.5% net smelter return royalty. Red Tusk may purchase 60% of the net smelter return royalty at any time for \$1,000,000.

Reclamation bonds are cash deposits pledged to the Province government of B.C. The bonds mature and roll over every year until the Company is released from its obligation.

An officer of the Optionor is related to a director.

On September 10, 2008, the Company entered into an option agreement (the "Agreement") with Georgia Ventures Corp. ("Georgia Ventures"), a Canadian private corporation located in Vancouver, British Columbia. Under the terms of the Agreement, the Company granted Georgia Ventures an option to acquire a 65% interest in the RHG Property. The option requires Georgia Ventures to:

- (i) pay the Company an aggregate of \$375,000 per the following instalments:
 - a. \$25,000 paid as a deposit upon completion of the Agreement; (received)
 - b. \$25,000 paid within 15 days from the time Georgia Ventures' common shares are listed for trading on the TSX Venture Exchange (the "Approval Date");
 - c. \$75,000 paid on or before the first anniversary of the Approval Date;
 - d. \$100,000 paid on or before the second anniversary of the Approval Date; and
 - e. \$150,000 paid on or before the third anniversary of the Approval Date.

- (ii) issue to the Company 1,000,000 common shares of Georgia Ventures per the following instalments:
 - a. 250,000 common shares within six months from the date of the Agreement; (received)
 - b. 250,000 common shares on or before the first the first anniversary of the Approval Date;
 - c. 250,000 common shares on or before the second anniversary of the Approval Date; and
 - d. 250,000 common shares on or before the third anniversary of the Approval Date.

- (iii) complete minimum expenditures on the RHG Property of \$3,500,000 over three years per the following schedule:
 - a. \$300,000 within six months from the date of the Agreement;
 - b. \$700,000 on or before the first anniversary of the Approval Date;
 - c. \$1,000,000 on or before the second anniversary of the Approval Date; and
 - d. \$1,500,000 on or before the third anniversary of the Approval Date.

If Georgia Ventures exercises the option, Georgia Ventures is also granted an exclusive option (the "Additional Option") to acquire an additional 10% interest in and to the RHG Property. The Additional Option requires Georgia Ventures to notify the Company 90 days before exercising the Additional Option and finance all expenditures related to the preparation and delivery of the feasibility report on the RHG to the Company.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

7. RESOURCE PROPERTY COSTS - *Continued*

b) **RHG Property** - *Continued*

On September 30, 2008, the Company entered into an assignment agreement whereby all benefits and costs related to the Agreement with Georgia Ventures have been assigned from Georgia Ventures to GMV Minerals Inc., a Canadian public corporation listed on the TSX Venture Exchange.

For the year ended December 31, 2008, the Company recognized an impairment charge of \$697,946 on the RHG property.

As at December 31, 2009, GMV chose not to proceed with the agreement, and as a result, the Company recognized an impairment charge of \$388,409 on the RHG property and reduced the carrying value to \$Nil. On April 6, 2010, GMV officially terminated its Option Agreement and the RHG claims lapsed on April 15, 2010. The Company has not renewed these claims.

8. SHARE CAPITAL

On August 17, 2009, the Company completed a 3 for 1 share consolidation. At that date, the Company had 24,672,346 common shares issued and outstanding resulting in 8,224,117 common shares outstanding after consolidation. Comparative amounts have been consolidated.

a) Details are as follows:

	<u>Number</u>	<u>Amount</u>
Authorized:		
Unlimited common shares without par value		
Issued and fully paid:		
Balance - December 31, 2008	8,224,117	12,165,844
Shares issued for business acquisition (<i>Note 4</i>)	1,290,001	438,600
Shares issued for cash (net of costs) (<i>Note 8(a)(i) and (ii)</i>)	3,500,000	1,017,446
Balance- December, 31 2009	13,014,118	13,621,890
Change in ownership interest in CanOrePro (<i>Note 4</i>)	-	(438,600)
Balance- December, 31 2010	13,014,118	\$ 13,183,290

Canada Gold Corporation
Notes to the Consolidated Financial Statements
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8. SHARE CAPITAL- Continued

a) Details on share capital

- i) On September 18, 2009, the Company closed the first tranche of a non brokered private placement and received \$270,000 by issuing 818,182 units at \$0.33 per unit. Each unit consists of one common share and one half of one non-transferable common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at \$0.50 per share for a one year period and \$0.65 per share in the second year. The Company paid finders fees of \$27,000, resulting in net proceeds of \$243,000 from this private placement.
- ii) On November 25, 2009, the Company closed the second tranche of a non-brokered private placement and received gross proceeds of \$885,000 and issued 2,681,818 units at \$0.33 per unit. Each unit consist of one common share and one half of one non-transferable common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at \$0.50 per share for a one year and \$0.65 per share in the second year. The Company paid finders fee of \$70,788, resulting in net proceeds of \$814,212 from this private placement. The Company also issued 187,100 warrants to the agents with a fair value of \$39,765 recorded as a share issuance cost. Each agent warrant entitles the holder to purchase one additional common share at \$0.50 per share for a one year and \$0.65 per share in the second year.

For purposes of the calculation, the following weighted average assumptions were used:

	2009
Risk free interest rate	1.32%
Expected dividend yield	-
Expected stock price volatility	117%
Expected life of options	2 years

The weighted average fair value of the agent warrants issued during the period was \$0.21.

b) **Warrants**

Warrant transactions are summarized as follows:

	Exercise Price	Number of Warrants	
		2010	2009
Balance - Beginning of year		1,937,100	-
Issued (<i>Note 8(a)(i) and (ii)</i>):		-	
<i>Expiry date: September 18, 2011</i>	\$0.65		409,091
<i>Expiry date: November 25, 2011</i>	\$0.65		1,528,009
Balance – End of year		1,937,100	1,937,100

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9. CONTRIBUTED SURPLUS

The Company's contributed surplus is comprised of the following:

	2010		2009	
Balance - Beginning of year	\$	1,701,196	\$	1,459,688
Stock-based compensation (<i>Note 11</i>)		76,691		201,743
Warrants issued to agents (<i>Note 8(a)</i>)		-		39,765
Balance - End of year	\$	1,777,887	\$	1,701,196

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2010		2009	
Balance - Beginning of year	\$	405,264	\$	(223,462)
Unrealized gain (loss) on marketable securities		(576,855)		628,726
Balance - End of year	\$	(171,591)	\$	405,264

11. STOCK OPTIONS

At the Company's June 26, 2009 Annual General and Special Meeting of the Shareholders, the Company adopted a stock option plan pursuant to which the directors may, from time to time, authorize the issuance of options to directors, officers, employees and consultants of the Company and its subsidiaries to a maximum of 10% of the issued and outstanding common shares at the time of the grant. Options granted under the plan are not subject to vesting.

a) A summary of the Company's outstanding options is as follows:

	2010		2009	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	970,000	\$0.39	650,000	\$0.54
Granted	938,889	\$0.11	658,889	\$0.39
Exercised	-	-	-	-
Expired/Cancelled	(611,111)	\$0.37	(338,889)	\$0.19
Ending balance	1,297,778	\$0.20	970,000	\$0.39

Canada Gold Corporation
Notes to the Consolidated Financial Statements
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11. STOCK OPTIONS- *Continued*

b) The Company had the following share purchase options outstanding and exercisable:

2010			
Quantity Outstanding	Quantity Exercisable	Exercise Price	Expiry Date
408,889	408,889	\$0.39	October 1, 2011
838,889	838,889	\$0.11	August 26, 2013
50,000	12,500	\$0.15	September 15, 2013
1,297,778	1,260,278		

2009			
Quantity Outstanding	Quantity Exercisable	Exercise Price	Expiry Date
311,111	311,111	\$0.39	March 6, 2010
658,889	658,889	\$0.39	October 1, 2011
970,000	970,000		

The weighted average contract life remaining on the above options is 752 days or 2.06 years (2009 – 455 days or 1.25 years).

The Company uses the Black-Scholes Option Pricing Model (the “Model”) to calculate the fair value of stock options granted. The Model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The Model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following weighted average assumptions were used:

	2010	2009
Risk free interest rate	1.53%	1.31%
Expected dividend yield	-	-
Expected stock price volatility	132%	132%
Expected life of options	3 years	2 years

The weighted average fair value of the options granted during the period was \$0.08 (2009 - \$0.26).

Total stock-based compensation for the year ended December 31, 2010 was \$76,691 (2009 - \$201,743) and was expensed to operations and included in contributed surplus for options granted to directors, officers, and consultants of the Company.

Canada Gold Corporation
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12. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these consolidated financial statements, are as follows:

- a) During the year, management fees of \$135,000 (2009 - \$140,625) were paid to companies controlled by a director and by an officer of the Company. The Company is committed to pay \$11,250 per month to companies controlled by a director and by an officer of the Company expiring August 2011.
- b) During the year, the Company paid \$65,931 (2009 - \$125,231) for rent, office, accounting and investor relations expenses to a company controlled by a director and by an officer of the Company.
- c) During the year, the Company expensed \$59,839 (2009 - \$199,404) of stock-based compensation cost for stock-based compensation options allocated to directors and officers of the Company.
- d) During the year, accounting fees of \$36,225 (2009 - \$34,000) were paid to a company controlled by the former CFO.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the consideration established and agreed to by the related parties and are on terms and conditions similar to non-related parties.

As at December 31, 2010, the Company had advanced \$15,306 (2009 - \$85,282) to a company controlled by directors and officer of the Company for future rent and office expenses. The amount is non-interest bearing with no formal terms of repayment.

13. INCOME TAXES

- a) The Company has the following non-capital tax loss carry-forwards expiring in the following years:

2014	\$ 472,000
2015	293,000
2026	320,000
2027	394,000
2028	233,000
2029	883,000
2030	1,158,000
	<hr/>
	\$ 3,753,000

Canada Gold Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

13. INCOME TAXES- *Continued*

- b) The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2010	2009
Canadian statutory income tax rate	26.50%	30.00%
Income tax recovery at statutory rate	\$ (382,460)	\$ (405,232)
Permanent difference and other	(93,675)	62,808
Change in tax rates	(5,475)	35,050
Expiry of losses	111,794	71,018
Change in valuation allowance	369,816	(236,356)
Income tax recoverable	\$ -	\$ -

- c) Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets and liabilities as at December 31, 2010 and 2009 are as follows:

	2010	2009
	25%	25%
Accounting value of resource property costs less than tax value	\$ 683,000	\$ 690,000
Property and equipment	2,000	2,000
Capital loss carry forward	29,000	10,000
Share issue costs	38,000	37,000
Investment tax credits	29,000	29,000
Marketable securities	21,000	(51,000)
Long term receivables	27,000	2,000
Non-capital losses carried forward	968,000	708,000
Eligible capital expenditures	32,000	32,000
Future income tax asset	1,829,000	1,459,000
Less: Valuation allowance	(1,829,000)	(1,459,000)
Future income tax asset recognized	\$ -	\$ -

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14. FINANCIAL INSTRUMENTS

Fair Value

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's balance sheet as of December 31, 2010 as follows:

	Fair Value Measurements Using			Balance as of December 31, 2010 \$	
	Quoted Prices in Active Markets For Identical Instruments (Level 1) \$	Significant Other Observable Inputs (Level 2) \$	Significant Unobservable Inputs (Level 3) \$		
	Assets:				
	Cash	291,332	–		–
Marketable Securities	750,212	–	–	750,212	
Total assets measured at fair value	1,041,544	–	–	1,041,544	

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and long-term receivable. To minimize the credit risk the Company places the cash with high credit quality financial institutions. Management, on an ongoing basis, monitors the financial condition of Animas in order to reduce the default risk.

The Company's long-term receivable is from Animas. Credit risk from long-term receivable encompasses the default risk of Animas. Management does not believe that there is significant credit risk arising from Animas; however, should Animas be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from long-term receivable is equal to their total carrying amounts. The Company is not exposed to interest rate risk on long-term receivable as the amount is fixed.

Currency Risk

The Company incurs expenses and expenditures primarily in Canada and is not exposed to risk from changes in foreign currency rates. However, the Company holds the long-term receivable in U.S. dollars that exposes the Company to foreign exchange risks. A significant change in the exchange rates between the Canadian dollar relative to the U.S. dollar could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2010, the Company had a long-term receivable of US\$250,000 this was received subsequent to year end.

Canada Gold Corporation
Notes to the Consolidated Financial Statements
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14. FINANCIAL INSTRUMENTS -Continued

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. Currently the Company has minimal liabilities and as a result, is not exposed to liquidity risk.

Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The Company is exposed to market risk in holding its marketable securities and derivative liability, and unfavourable market conditions could result in dispositions of investments at less than favourable prices.

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the year had a change in foreign exchange rates occurred.

The sensitivity analysis includes the assumption that changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of the sensitivity analysis shows a change in +/- 10% in the US dollar exchange rate could have an impact of approximately +/- \$25,000 on the Company's net income.

This result arises primarily because the Company has a long-term receivable balance denominated in US dollars. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from the above.

Transaction Costs

Transaction costs attributable to the acquisition or issue of financial assets or financial liabilities, other than those classified as held-for-trading, are added to the initial fair value amount to match the costs with the related transactions. Purchases and sales of securities are accounted for on the settlement date basis.

15. COMMITMENTS

The Company is committed to a lease for its office in Vancouver expiring in August 2011. Maximum lease payments will be \$71,592.

16. CONTINGENT LIABILITY

A legal proceeding was brought against the Company's subsidiary CanOrePro on December 4, 2009 by a former employee for wrongful employment termination seeking damages in the approximate amount of \$609,708. CanOrePro holds the position that the former employee is not entitled to any severance or compensation.

During the year, the Company was informed by its legal counsel that the claimant has filed for bankruptcy. The claimant's assets and rights for legal claim have been vested in the Trustee of Bankruptcy until such time when the Trustee is discharged on the claimant's estate which will not occur until 2011. Until the Trustee is discharged from the claimant's estate, creditors have the right to take further action on this claim. The Company is currently seeking to obtain a Notice of Discontinuance from the Trustee.

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17. MANAGEMENT OF CAPITAL

The Company defines capital as all components of shareholders' equity. The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not subject to any externally imposed capital requirements.

18. SUBSEQUENT EVENTS

- a) On January 10, 2011, the Company sold 700,000 common shares of Canada Rare Earths Inc. (formerly known as Canada Gas Corp.) for gross proceeds of \$105,000.
- b) Subsequent to year-end, the Company received 499,251 common shares to settle the US\$250,000 instalment as described in note 7a.